

Natural gas plants set for revival in Germany as carbon costs soar



Uniper SE is preparing to switch on more natural-gas plants as higher costs for carbon allowances shifted the economics of the power generation business away from coal.

Gas plants also are benefiting both from a slump in the price of the fuel. Uniper, one of Europe's largest utilities, will bring back on line as much as 3.5 gigawatts of gas plants that were mothballed when market conditions were less favourable. That's almost a third of its gas-plant capacity.

"Carbon markets have shown they work," chief executive officer Andreas Schierenbeck said in an interview in Bloomberg's office in Frankfurt. "This summer, carbon prices were very high and gas is very cheap, very competitive. The logic is clear: you need as much as double carbon certificates for coal than for gas."

The remarks illustrate the latest shift in the ever-changing economics of generating electricity. While Chancellor Angela Merkel is moving to phase out the most polluting fossil fuels, emissions in Germany have actually risen in recent years as the government took nuclear plants off the grid, boosting the need for coal.

Now the government is seeking to remove both nuclear and coal plants from the nation's power supply, eliminating about half of Germany's power generation capacity. The rise in carbon costs has helped encourage that shift by making it profitable

for utilities to switch on gas plants instead of coal.

The move will help Germany reduce pollution. Natural gas emits as much as 55% less carbon dioxide than coal. While the government is seeking to spur renewables to meet its climate commitments, industry executives, energy forecasters and investors say that more gas will be needed for the time being. Gas plants can help balance the grid until there's enough wind, solar and battery capacity to ensure supply day and night and on breeze-free days.

"With the nuclear and coal exit, our gas plants will have to produce more," said Schierenbeck. "We need more gas for power generation as a big part of our power plants is on the reserve, and we will probably take them out."

Carbon permits under the European Union's emissions-trading system, the world's biggest cap-and-trade programme, were at €23.70 a tonne (\$26.14) on Friday, 20% higher than a year ago. Analysts and traders expect that annual demand will outweigh supply at least until the mid-2020s.

German gas prices are 40% lower than a year ago. Weighing on prices are abundant supplies arriving both by pipeline and in LNG tankers. That has pushed storage levels to near capacity and well above the average for the past five years.

Uniper has the capacity to generate 10 gigawatts of power from natural gas in Germany. It will be one of the companies hit quickly by legislation to phase out coal in Germany. Some versions of the draft bill suggest the country will shut down 5 gigawatts of hard coal capacity by 2022.

Uniper owns more than 3 gigawatts of power plants that burn hard coal and is building another 1 gigawatt-plant in western Germany. It expects to get approval from the government to start operating that facility, named Datteln-4.

The new power unit has not entered service yet due to ongoing structural problems with its boiler. Uniper now expects to start it in the middle of next year. The company has argued that the plant should open despite Germany's plan to exit coal.

"Datteln 4 will probably be the last new coal power plant we

will see in Germany,” said Schierenbeck. “I would guess it would be also true for Europe. I have the feeling there’s understanding from the government that it makes sense to keep the newer and most efficient instead of the older and less environment friendly.”

Uniper is Europe’s fifth largest greenhouse gas emissions polluter in the power sector based on 2017 data, according to Sandbag, a climate change think tank in London.